

CITY OF DUNCOMBE, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2014

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-11
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 12
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 13
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 14
Notes to Financial Statements	15-20
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	21
Notes to Other Information – Budgetary Reporting	22
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances- Nonmajor Governmental Funds	1 23
Schedule of Indebtedness	2 24
Bond and Note Maturities	3 25
Schedule of Receipts	4 26
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Schedule of Findings	29-32

CITY OF DUNCOMBE, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Taylor	Mayor	Dec 2015
Pat LaSourd	Council Member	Dec 2015
Joline Porter-Klein	Council Member	Dec 2015
Shelley Bair	Council Member	Dec 2015
Jill Powell	Council Member	Dec 2017
Craig Royster	Council Member	Dec 2017



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Duncombe, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

Basis of Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2013.

Qualified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Duncombe, Iowa as of June 30, 2014, and the respective changes in its cash basis financial position for the year ended in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Duncombe's basic financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 11 and 21 through 22, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 13, 2015 on our consideration of the City of Duncombe's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Duncombe's internal control over financial reporting and compliance.

T.P. Anderson & Company, P.C.

January 13, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Duncombe, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City does not have, and is not required to have, an audit on an annual basis, much of the information included in this analysis is not easily comparable to prior years. Should the city choose to have audits in consecutive years, comparisons would be more meaningful and would go farther to explain the City's financial position and results of operations.

2014 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities were approximately \$358,000. Property tax receipts were approximately \$199,000 and other city tax receipts were approximately \$61,000.
- Governmental activity disbursements were approximately \$307,000 in fiscal 2014. 27% of total disbursements were incurred for debt service and 20% were incurred for Public Works.
- The City's total cash basis Net Position increased 13%, or approximately \$82,000 from June 30, 2013 to June 30, 2014. Of this amount, the assets of the governmental activities increased approximately \$62,000 and the assets of the business type activities increased by approximately \$20,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the cash basis activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's Net Position. Over time, increases or decreases in the City's Net Position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects services. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sewer system, and the recycling system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) and the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) and the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

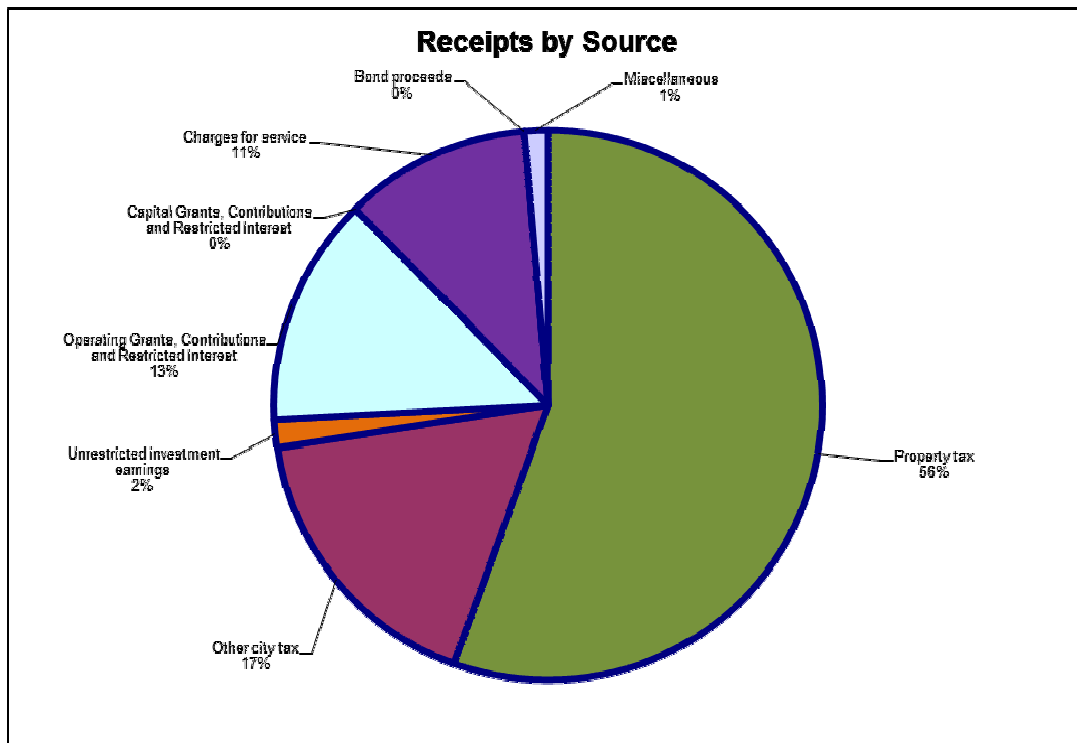
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$374,000 to \$436,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

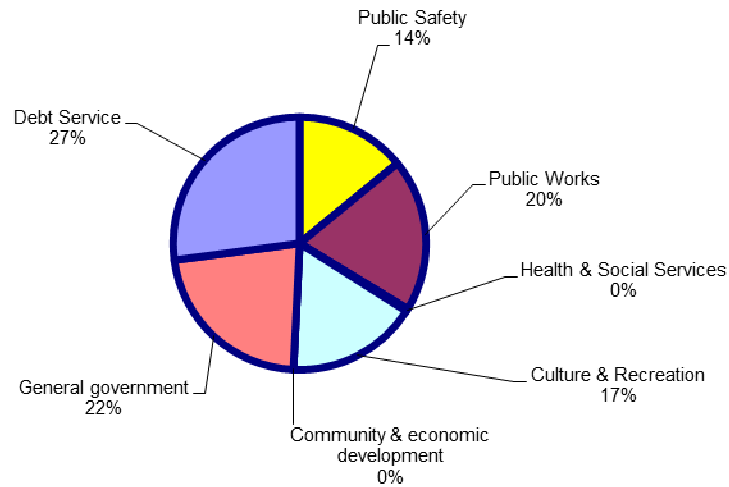
	Year Ended <u>June 30, 2014</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 39
Operating grants, contributions and restricted interest	48
General receipts:	
Property tax	199
Local option sales tax	61
Unrestricted investment earnings	6
Other general receipts	<u>5</u>
Total receipts	358

Disbursements:	
Public safety	43
Public works	60
Health & social services	1
Culture and recreation	52
General government	68
Debt Service	83
Total disbursements	<u>307</u>

Change in cash basis net position before transfers	51
Transfers in (out)	<u>11</u>
Change in cash basis net position	62
Cash basis net position beginning of year	<u>374</u>
Cash basis net position end of year	<u>\$ 436</u>



Disbursements by Function



The cost of all governmental activities this year was \$307,000. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 12, the amount taxpayers ultimately financed for these activities was only \$219,000 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$88,000). The City paid for the remaining “public benefit” portion of governmental activities with property tax (some of which could only be used for certain programs), and with other receipts, such as interest, local option sales tax, and miscellaneous receipts.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)

	Year Ended June 30, 2014
Receipts:	
Program receipts:	
Charges for service:	
Waterworks	\$ 73
Sewer	39
Total receipts	<u>112</u>

Disbursements:	
Waterworks	61
Sewer	20
Total disbursements	<u>81</u>
Change in cash basis net position before transfers	31
Transfers, net	<u>(11)</u>
Increase in cash balance	20
Cash basis Net Position beginning of year	<u>242</u>
Cash basis Net Position end of year	<u>\$ 262</u>

Total business type activities receipts for the fiscal year were \$112,000. The cash balance increased by approximately \$20,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Duncombe completed the year, its governmental funds reported a combined fund balance of \$436,000, an increase of \$62,000 above last year's total of \$374,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Special Revenue, Local Option Sales Tax Fund balance increased by \$18,000 during the year. This was a result of receipts collected outweighing the transfer made to the Debt Service Fund during the year.
- The Special Revenue, Road Use Tax Fund and the General Fund increased \$22,000 and \$15,000 respectively, during the fiscal year due to planned operations of the fund.
- The Debt Service Fund broke even for the year due to planning by the City.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Waterworks Fund cash balance increased by \$235 to \$161,000 at June 30, 2014 mainly due to a transfer of \$11,000 to the Debt Service fund during the year.
- The Sewer Fund cash balance increased by approximately \$19,000 due primarily to planned operations of the fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 14, 2014 and resulted in an increase of \$7,500 in revenues and a decrease of \$10,000 in disbursements. The City did not over-expend its budget.

DEBT ADMINISTRATION

At June 30, 2014, the City has approximately \$180,000 of general obligation bonds outstanding. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$900,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when establishing the fiscal year 2015 budget, tax rates and fees charged for various City activities. A conservative approach was used and a balanced budget is anticipated.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Duncombe's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Kathy Gambill, City Clerk, 421 Main Street P.O. Box 38, Duncombe, Iowa 50532.

Basic Financial Statements

CITY OF DUNCOMBE, IOWA

Exhibit A

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Receipts				Net(Disbursements)Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
Governmental activities:							
Public safety	\$ 43,193	-	-	-	(43,193)	-	\$ (43,193)
Public works	60,236	-	29,589	-	(30,647)	-	(30,647)
Health & Social Services	990	-	-	-	(990)	-	(990)
Culture and recreation	51,502	39,305	18,785	-	6,588	-	6,588
General government	67,810	-	-	-	(67,810)	-	(67,810)
Debt Service	83,276	-	-	-	(83,276)	-	(83,276)
Total governmental activities	307,007	39,305	48,374	-	(219,328)	-	(219,328)
Business type activities							
Waterworks	61,502	72,686	-	-	-	11,184	11,184
Sewer	19,861	39,123	-	-	-	19,262	19,262
Total business type activities	81,363	111,809	-	-	-	30,446	30,446
Total	\$ 388,370	151,114	48,374	-	(219,328)	30,446	(188,882)
General Receipts and Transfers:							
Property tax levied for:							
General purposes					\$ 199,181	-	199,181
Local option sales tax					60,649	-	60,649
Unrestricted interest on investments					552	-	552
Miscellaneous					10,222	-	10,222
Transfers in (out)					10,949	(10,949)	-
Total general receipts and transfers					281,553	(10,949)	270,604
Change in cash basis net assets					62,225	19,497	81,722
Cash beginning of year					374,210	242,896	617,106
Cash end of year					436,435	262,393	698,828
Cash Basis Net Position:							
Restricted							
Expendable							
Road use tax					58,588	-	58,588
Local option sales tax					64,125	-	64,125
Emergency					3,614	-	3,614
Employee benefits					9,701	-	9,701
Unrestricted					300,407	262,393	562,800
	\$				436,435	262,393	698,828

See Notes to Financial Statements

CITY OF DUNCOMBE, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES GOVERNMENTAL FUNDS AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 147,074	\$ -	\$ -
Other city tax		-	60,649
Licenses and permits	1,925	-	-
Use of money and property	5,800	-	-
Intergovernmental	18,785	29,589	-
Charges for service	39,305	-	-
Miscellaneous	3,049	-	-
Total receipts	215,938	29,589	60,649
Disbursements:			
Operating:			
Public Safety	43,062	-	-
Public Works	52,972	7,264	-
Health & Social Services	990	-	-
Culture & Recreation	51,502	-	-
General government	52,342	-	-
Debt service	-	-	-
Total Disbursements	200,868	7,264	-
Excess of receipts over disbursements	15,070	22,325	60,649
Other financing sources (uses):			
Transfers In	-	-	-
Transfers Out	-	-	(42,193)
Total other financing sources (uses)	-	-	(42,193)
Net change in cash balances	15,070	22,325	18,456
Cash balances beginning of year	285,337	36,263	45,669
Cash balances end of year	\$ 300,407	58,588	64,125
Cash Basis Fund Balances			
Restricted for			
Streets	\$ -	\$ 58,588	\$ -
Other purposes	-	-	64,125
Unassigned	300,407	-	-
Total cash basis fund balances	\$ 300,407	\$ 58,588	\$ 64,125
See Notes of Financial Statements			

Exhibit B

Debt Service			Nonmajor		
Total					
\$	30,134		\$	21,973	\$ 199,181
	-			-	60,649
	-			-	1,925
	-			-	5,800
	-			-	48,374
	-			-	39,305
	-			-	3,049
	30,134			21,973	358,283
	-			131	43,193
	-			-	60,236
	-			-	990
	-			-	51,502
	-			15,468	67,810
	83,276			-	83,276
	83,276			15,599	307,007
	(53,142)			6,374	51,276
	53,142			-	53,142
	-			-	(42,193)
	53,142			-	10,949
	-			6,374	62,225
	-			6,941	374,210
	-			13,315	436,435
\$	-		\$	-	\$ 58,588
	-			13,315	77,440
	-			-	300,407
\$	-		\$	13,315	\$ 436,435

CITY OF DUNCOMBE, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Waterworks</u>	<u>Sewer</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 72,686	\$ 39,123	\$ 111,809
Total operating receipts	<u>72,686</u>	<u>39,123</u>	<u>111,809</u>
Operating disbursements:			
Business type activities	<u>61,502</u>	<u>19,861</u>	<u>81,363</u>
Total operating disbursements	<u>61,502</u>	<u>19,861</u>	<u>81,363</u>
Excess of operating receipts over operating disbursements	11,184	19,262	30,446
Other financing uses:			
Operating transfers out	<u>(10,949)</u>	<u>-</u>	<u>(10,949)</u>
Total other financing uses	<u>(10,949)</u>	<u>-</u>	<u>(10,949)</u>
Net change in cash balances	235	19,262	19,497
Cash balances beginning of year	<u>160,889</u>	<u>82,007</u>	<u>242,896</u>
Cash balances end of year	<u>\$ 161,124</u>	<u>\$ 101,269</u>	<u>\$ 262,393</u>
Cash Basis Fund Balances			
Unrestricted	<u>161,124</u>	<u>101,269</u>	<u>262,393</u>
Total cash basis fund balances	<u>\$ 161,124</u>	<u>\$ 101,269</u>	<u>\$ 262,393</u>

See Notes of Financial Statements

CITY OF DUNCOMBE, IOWA

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The City of Duncombe is a political subdivision of the State of Iowa located in Wright County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, community and economic development and general government services. The City also provides water and sewer utilities services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Duncombe has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of has no component units which meet the Government Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Duncombe Community Fire Commission, Webster County Joint E911 Service Board, and the North Central IA Regional Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF DUNCOMBE, IOWA

NOTES TO FINANCIAL STATEMENTS

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net position result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consist of cash balances that do not meet the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

CITY OF DUNCOMBE, IOWA

NOTES TO FINANCIAL STATEMENTS

The Local Option Sales Tax (LOST) Fund is utilized to account for the local option sales tax receipts and disbursements.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principle on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water distribution system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF DUNCOMBE, IOWA

NOTES TO FINANCIAL STATEMENTS

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state and federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements did not exceed the budgeted amounts.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

The City had no investments as of June 30, 2014.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for the City's general obligation notes are as follows:

CITY OF DUNCOMBE, IOWA

NOTES TO FINANCIAL STATEMENTS

Year Ending June 30,	General Obligation Bonds		
	Principal	Interest & Fees	Total
2015	70,000	9,770	133,505
2016	70,000	6,378	133,940
2017	40,000	2,380	132,510
	<u>\$ 180,000</u>	<u>18,528</u>	<u>198,528</u>

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$7,605, \$7,869, and \$7,207 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until they are paid. The City's approximate maximum liability for earned vacation and sick leave payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount 06-30-14</u>
Sick pay and personal days	\$ 929
Vacation pay	2,602
Total	<u>\$ 3,531</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

(6) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2014 is as follows:

CITY OF DUNCOMBE, IOWA

NOTES TO FINANCIAL STATEMENTS

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	Special Revenue Fund:	
	Local Option Sales Tax	\$ 42,193
Debt Service	Enterprise:	
	Water	<u>10,949</u>
		<u>\$ 53,142</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Subsequent Events

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through January 13, 2015, the date the financial statements were issued.

(9) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

CITY OF DUNCOMBE, IOWA

**Budgetary Comparison Schedule of Receipts, Disbursements, and Changes
in Balances - Budget and Actual (Cash Basis)
All Government Funds and Proprietary Funds**

**OTHER INFORMATION
Year Ended June 30, 2014**

	Governmental Funds Activity	Proprietary Funds Activity	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 199,181	-	199,181	193,170	193,170	6,011
Other city tax	60,649	-	60,649	55,489	61,489	(840)
Licenses and permits	1,925	-	1,925	1,200	1,200	725
Use of money and property	5,800	-	5,800	3,100	5,100	700
Intergovernmental	48,374	-	48,374	44,916	44,916	3,458
Charges for service	39,305	111,809	151,114	147,500	147,500	3,614
Special assessments	-	-	-	500	-	-
Miscellaneous	3,049	-	3,049	4,000	4,000	(951)
Total receipts	358,283	111,809	470,092	449,875	457,375	12,717
Disbursements:						
Program						
Public Safety	43,193	-	43,193	67,360	57,360	(14,167)
Public Works	60,236	-	60,236	73,070	106,790	(46,554)
Health and Social Services	990	-	990	3,500	3,500	(2,510)
Culture & Recreation	51,502	-	51,502	64,416	64,416	(12,914)
General government	67,810	-	67,810	94,701	94,701	(26,891)
Debt Service	83,276	-	83,276	83,276	83,276	-
Business-type activities	-	81,363	81,363	117,360	83,640	(2,277)
Total Disbursements	307,007	81,363	388,370	503,683	493,683	(105,313)
Excess (deficiency) of receipts over disbursements	51,276	30,446	81,722	(53,808)	(36,308)	118,030
Other financing sources, net	10,949	(10,949)	-	-	-	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	62,225	19,497	81,722	(53,808)	(36,308)	118,030
Balance - beginning of year	374,210	242,896	617,106	506,884	506,884	110,222
Balance - end of year	\$ 436,435	262,393	698,828	453,076	470,576	228,252

See Accompanying Independent Auditor's Report

CITY OF DUNCOMBE, IOWA

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

JUNE 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No.41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased disbursements by \$10,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed budgeted amounts.

Supplementary Information

CITY OF DUNCOMBE, IOWA

Schedule 1

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Emergency	Employee Benefits	Total
Receipts:			
Property tax	\$ 3,751	\$ 18,222	21,973
Total receipts	3,751	18,222	21,973
Disbursements:			
Operating:			
Public Safety	131	-	131
General government	-	15,468	15,468
Total Disbursements	131	15,468	15,599
Excess of receipts over disbursements	3,620	2,754	6,374
Cash balances beginning of year	(6)	6,947	6,941
Cash balances end of year	3,614	9,701	13,315
Cash Basis Fund Balances			
Restricted for:			
Other purposes	3,614	9,701	13,315
Total cash basis fund balances	3,614	9,701	13,315

See accompanying independent auditor's report

CITY OF DUNCOMBE, IOWA

Schedule 2

**SCHEDULE OF INDEBTNESS
Year Ended June 30, 2014**

Obligation	Date Issued	Interest Rate	Amount Original Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
Community Center Project	7/1/2007	4.0-4.7%	325,000	\$ 145,000	-	35,000	110,000	6,693
Water Treatment Plant	6/1/2001	4.2-5.4%	400,000	105,000	-	35,000	70,000	5,583
				<u>\$ 250,000</u>	<u>-</u>	<u>70,000</u>	<u>180,000</u>	<u>12,275</u>

See accompanying independent auditor's report

CITY OF DUNCOMBE, IOWA

Schedule 3

**BOND & NOTE MATURITIES
JUNE 30, 2014**

Year Ending June 30,	General Obligation Bonds			
	Community Center Project Issued July 01, 2007		Water Treatment Plant Issued June 01, 2001	
	Interest Rates	Amount	Interest Rates	Amount
2015	4.60%	\$ 35,000	5.3%	\$ 35,000
2016	4.65%	35,000	5.4%	35,000
2017	4.70%	40,000		
Total		<u>\$ 110,000</u>		<u>\$ 70,000</u>

See accompanying independent auditor's report.

CITY OF DUNCOMBE, IOWA

Schedule 4

**Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Year**

	<u>2014</u>
Receipts:	
Property Tax	\$ 199,181
Other city tax	60,649
Licenses and permits	1,925
Use of money and property	5,800
Intergovernmental	48,374
Charges for service	39,305
Miscellaneous	3,049
Total	<u>\$ 358,283</u>
Disbursements:	
Operating:	
Public safety	\$ 43,193
Public works	60,236
Health and social services	990
Culture and recreation	51,502
General government	67,810
Debt Service	83,276
Total	<u>\$ 307,007</u>

See accompanying independent auditor's report.



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Duncombe, Iowa as of and for the year ended June 30, 2014, and the related Notes the Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 13, 2015. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Duncombe's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Duncombe's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Duncombe's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Duncombe's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Duncombe's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Duncombe's Response to the Findings

The City of Duncombe's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses we did not audit the responses and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Duncombe during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

T.P. Anderson & Company, P.C.

January 13, 2015

CITY OF DUNCOME, IOWA

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results:

- (a) As a result of not being audited in all previous years sufficient evidence to support the split of fund balance as of July 1, 2013 was not able to be obtained. Because of that limitation, modified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. general accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF DUNCOME, IOWA

SCHEDULE OF FINDINGS

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Segregation of Duties - We noted that the cash receipt function, the recording of the cash receipts, and the preparation of cash disbursements is generally handled by the same person.

Criteria - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Cause – The limited office staff results in the lack of segregation of duties.

Effect – The internal controls over financial reporting are not as strong as they could be.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-14 Reconciliation of utility billings and collections – Utility billings and collections were not reconciled monthly throughout the whole year.

Criteria – A comprehensive set on internal controls includes reconciling the City's bank account to the bank statements and would include reconciling major revenue streams to deposits and monthly reporting.

CITY OF DUNCOME, IOWA

SCHEDULE OF FINDINGS

Cause – The City Clerk had never had the procedure suggested to her and therefore never performed the reconciliation.

Effect – There is a lack of controls over utility revenues and collections.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period. The Council or a Council designated independent person should review the accuracy and timeliness of the reconciliation's.

Response – We will implement procedures to reconcile our utility billings and collections in a timely manner.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

- III-A-14 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. However, out of a sample selection size of twenty five, one invoice for a disbursement to Office Max was not able to be located.
- III-B-14 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- III-C-14 Business Transactions - No business transactions between the City and its officials or employees were noted.
- III-D-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-E-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-F-14 Deposits and Investments – The City of Duncombe has not adopted a written investment policy.

Criteria - Chapter 12B.10B of the Code of Iowa states “Political subdivisions shall approve written investment policies which incorporate the guidelines specified in section 12B.10,

CITY OF DUNCOME, IOWA

SCHEDULE OF FINDINGS

sections 12B.10A through 12B.10C, and any other provisions deemed necessary to adequately safeguard invested public funds.”

Cause – The City has never had investments and therefore the City Council did not see the need for a written investment policy.

Effect – The City is not in compliance with Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy to comply with the Code of Iowa and to implement added controls over city funds.

Response – We will consider adopting a written investment policy.

Conclusion – Response accepted.

III-G-14 Code of Ordinances – It came to our attention that the City’s Code of Ordinances had not been recodified for more than 5 years.

Criteria – Chapter 1(a) of the Code of Iowa states that a Code of Ordinances should be compiled at least once every five years.

Cause – The City was not aware of this requirement.

Effect – The City was not in compliance with this aspect of the Code of Iowa.

Recommendation – We understand that the City is in the process of recodifying the City’s Code of Ordinances.

Response – We will see the recodification through to completion.

Conclusion – Response accepted.